



**INDONESIAN POLITICAL ECONOMY  
in  
THE ERA of APEC**

**Sofyan Lubis**

**Department of Politics  
The University of Adelaide**

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## ABSTRACT

This study explores and analyses the Indonesian economy during the APEC era, mainly focusing on the period just before and immediately after the formation of APEC with an emphasis on politics and economic policy. In approaching and analysing this topic, this study adopts historical and systemic approaches.

This study argues that during the Sukarno period, the Indonesian economy was marked by the heavy involvement of state enterprises in economic activities and the pursuit of a nationalistic economic policy based on the principle of self-sufficiency. This study also reveals that in the aftermath of the Sukarno period of the mid 1960s the Indonesian economy was on the verge of collapse with the inflation rate reaching approximately 600 percent. Politically, Sukarno governed Indonesia in a dictatorial style, relying heavily on the support of the nationalists, the religious organisations and the communists - a ruling coalition known by the acronym Nasakom. However, due to a lack of political cohesion in this power base, in 1966 Sukarno could not consolidate his rule without the support of Major General Suharto. Under Suharto's influence, inflation was brought under control and the Indonesian economy was orientated towards returning capital invested in Indonesia by foreign interests and reintegrating Indonesia into the world economy with export-oriented strategies. Moreover, in stabilising the economy the government also used loan assistance from international financial institutions such as the IMF, the World Bank, the Asian Development Bank and the IGGI. Major programs aimed at liberalising the Indonesian economy were introduced before 1970, then from the mid 1970s to the 1980s, Indonesia adopted more inward looking economic policies through heavily regulated merchandise trade flows.

Indonesia had begun gradually orienting its economic growth towards improving the use of international markets since the beginning of 1981. By 1987 the value of non-petroleum products exported exceeded the value of petroleum products. Even in 1992, the total value of non-petroleum exports was sixty percent of the value of Indonesia's total exports. It can therefore be concluded that the Indonesian economy achieved considerable success during the last three decades. As a member of APEC, the Indonesian Government realised the challenges posed by globalisation. The Indonesian Government had been continuing its reforms of the bureaucracy by streamlining the procedures to create a freer business environment. Furthermore, through a gradual series of policy reforms that began in 1983, Indonesia has been unilaterally liberalising its economy by the reduction of tariffs and tariff barriers. Globalisation forced the Indonesian Government to be flexible towards economic problems. When the regime started to liberalise the economy in the 1980s, its reforms often generated political conflict between elements divided over the benefits of reform. Moreover, the Government's enthusiasm for economic involvement led to serious market distortions. In short, the Suharto regime created a "crony" capitalism that benefited certain businessmen and conglomerates at the expense of the free-market. When the crisis occurred in 1997, the Indonesia Government tried to review its economic policy with assistance from the IMF, the World Bank and other institutions to resolve the crisis.

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**Adelaide, 15 December 1998.**

This work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

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**Sofyan Lubis**

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